

## Message Text

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ACTION EUR-25

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TAGS: ECON, OECD

SUBJECT: OECD SHORT- TERM ECONOMIC FORECASTS, 1973 AND 1974(I)

REF: DES/ NI/ F(73)1

DEPT PASS CEA, TREAS . AND FRB

1. SUMMARY: OECD AREA IN BUOYANT UPSWING THIS YEAR AND FIRST HALF 1974. PRICES EXPECTED ACCELERATE. VOLUME TRADE EXPANSION LIKELY BE STRONGEST IN POST- WAR PERIOD. US TRADE AND CURRENT ACCOUNT BALANCES FORECAST TO IMPROVE. END SUMMARY.

2. OECD SECRETARIAT IN REFDOP FORCEASTS " VERY BIOYANT" REAL OUTPUT GROWTH THIS YEAR (6.75 PER CENT) AND FIRST HALF NEXT. IF STATES THOUGH SOME DECELERATION EXPECTED FIRST HALF 1974, OECD AREA REAL GNP MAY STILL BE EXPANDING THEN AT 6 PERCENT ( AR), WELL ABOVE LONGER-RUN GROWTH CAPACITY. BY MID- 1974, GAP BETWEEN ACTUAL AND POTENTIAL OUTPUT FOR EOCD AREA MAY BE OF ORDER ONLY  
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1.25 PER CENT AND EVEN LOWER IN EUROPE. FORECASTS SUBJECT TO USUAL UNCERTAINTIES BUT ON BALANCE POSSIBLY EVEN STRONGER PICTURE COULD DEVELOP IF INVENTORIES, WEAK IN 1972, PICK UP; ALSO IF PRESENT MARGINS SPARE CAPACITY OVER-ESTIMATED AND/ OR LIKELY EXPANSION FOREIGN TRADE UNDER-ESTIMATED. ASSUMPTION MADE THAT INTERNATIONAL MONETARY SITUATION WILL NOT ADVERSELY AFFECT BUSINESS CONFIDENCE. MAJOR UNCERTAINTY OTHER DIRECTION IS BEHAVIOR SAVINGS RATIO ( AND THUS CONSUMPTION), BUT FORECASTS BASED ON ARBITRARY ASSUMPTION RETURN TO OR TOWARDS " NORMAL LEVELS".

## BROWTH REAL GNP SEVEN MAJOR OECD COUNTRIES

( PERCENT CHANGES, SEAS. ADJ. AR.,)  
FROM PREVIOUS HALF YEAR

	1972- I	1972- II	1973- I	1973- II	1974- I
CANADA	4.7	5.2	7.0	7.1	6.8
U. S.	7.3	7.5	6.7	6.0	5.2
JAPAN	9.0	13.8	10.5	10.0	11.1
FRANCE	4.8	5.6	6.3	5.7	6.1
GERMANY	5.7	1.3	6.8	7.0	5.6
ITALY	1.2	4.9	5.3	6.1	7.3
U. K.	1.2	6.3	5.3	4.0	5.0
TOTAL OF 7	6.3	7.1	6.9	6.4	6.4

3. ON PRICES, SOME DECELERATION IN FOOD PRICES HAS BEEN BUILT INTO FORECASTS, BUT IT IS EXPECTED PRICES OF MANUFACTURES AND SERVICES WILL ACCELERATE ALMOST EVERYWHERE THROUGH 1973 AND INTO 1974, REFLECTING BOTH INCREASING DEMAND PRESSURES AND RISING UNIT LABOR COSTS.

GNP DEFLATORS 7 MAJOR COUNTRIES  
( PERCENT CHANGES SEAS. ADJ. AR.)  
FROM PREVIOUS HALF YEAR

	1972- I	1972- II	1973- I	1973- II	1974- I
CANADA	5.4	4.5	5.2	4.7	4.7
U. S.	3.4	2.4	4.5	4.0	4.5
JAPAN	3.4	7.3	6.5	5.5	5.9
FRANCE	5.2	7.4	5.6	6.2	6.8

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GERMANY	5.2	5.4	7.1	6.7	6.8
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ITALY	6.0	7.0	9.3	6.7	6.6
U. K.	5.4	8.0	5.6	5.8	4.9
TOTAL OF 7	4.1	4.3	5.4	4.9	5.2

4. EXPANSION TRADE VOLUME OECD AREA THIS YEAR LIKELY  
 BE STRONGEST IN POST- WAR PERIOD. IMPORTS EXPECTED GROW  
 13.5 PER CENT, WITH ONLY SLIGHT DECELERATION INTO FIRST  
 HALF 1974; EXPORTS FORECAST EXPAND ONLY marginally  
 LESS RAPIDLY. SUBSTANTIAL EFFECTS SMITHSONIAN REALIGN-  
 MENT EXPECTED COME THROUGH 1973, ALTHOUGH SOMEWHAT OB-  
 SCURED BY INITIAL TERMS TRADE EFFECT SECOND REALIGNMENT.  
 RELATIVELY LARGE INCREASES EXPORT AND IMPORT PRICES  
 EXPE  
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